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CONTRA COSTA
HEALTH SERVICES

DOCTORS MEDICAL CENTER CHRONOLOGY

1948	Hospital District formed by West County voters
1954	Brookside Hospital opens

DMC HAS BEEN FINANCIALLY CHALLENGED SINCE THE 1990'S

1994	Hospital District converts to West Contra Costa Healthcare District (WCCHD)
1997	Brookside Hospital affiliates with for-profit Tenet Health Systems to operate the hospital and renames it Doctors Medical Center (DMC)
2004	**Tenet sustains financial losses** and is unable to profitably operate the hospital after making substantial investments, including attempts to improve the payor mix, **and terminates affiliation** and returns operation of the hospital back to the Healthcare District (with hospital losing money, no cash and without a management team)
Nov 2004	**Voters pass Measure D** by 84% margin to assess a parcel tax of $52/year to raise approximately **$5.6 million/year.** • Proceeds of new tax used to secure **$26 million in long-term financing/debt** to support hospital operations and make necessary investments in the hospital and its equipment.
2005	DMC sustains $23 million in operating losses in 2005 and consumes much of the cash reserves created by the 2004 financing.
Feb 2006	DMC closes Inpatient Burn Unit to stem losses.
Sept-Nov 06	Emergency Department goes on ambulance diversion for 6 weeks.
Oct 2006	DMC sustains $35 million in operating losses in 2006 and WCCHD files for Chapter 9 bankruptcy protection.
Oct 2006	DMC closes Obstetrics Department to stem losses and closes Pinole campus.
Oct 2006	At Supervisor John Gioia's urging, the **Contra Costa Board of Supervisors approves a Recovery Plan** for the hospital that includes the establishment of a Joint Management Agreement between WCCHD/DMC and the County, and establishes a process to transfer **$10 million from Contra Costa County** to the State which was **matched by the Federal Government (additional $10 million)** to provide enhanced Medi-Cal payments to DMC resulting in **$20 million cash infusion** to keep DMC open. Funds used to support payroll/operating expenses.

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Dec 2006 WCCHD Board approves Wellspring Management Services (hospital turnaround consultants) contract to assess DMC's financial situation and develop a sustainable business plan.

Feb 2007 First meeting of the new DMC Management Authority JPA Board occurs

March 2007 JPA Board approves amendment to Wellspring Contract to provide assistance to implement "quick-fix" **initiatives relating to billing and collections, which improved cash flow by more than $2.5 million**.

Spring 2007 Replace DMC management with interim management team through Wellspring (CEO, CFO, Chief Nursing Officer/Chief Operating Officer, Controller, HR)

During 2007 DMC negotiates **improved reimbursement contracts** with managed care payors (health insurance companies) for an **annual benefit of $2.9 million**.

July 2007 WCCHD and JPA Boards approve business plan presented by Wellspring. JPA Board approves amendment to Wellspring contract to begin the 90-day first phase of implementation of the initiatives in the new business plan.

Aug 2007 Wellspring begins implementing following **initiatives to yield savings of $9.7 mil.**

- Revenue Cycle – improve billing/collections by redesigning revenue cycle process and implementing new denial management process
- Labor – right size staff with hospital volume and need, including improving staffing productivity, implementing control and productivity systems, and redesigning staffing approach
- Non-Labor – renegotiate pricing arrangements with health insurance companies to bring in line with industry standards and current DMC cost structure and renegotiate vendor contracts to get better pricing on products and services.

Aug 2007 County Health Officials, Supervisor John Gioia, DMC CEO, and local legislators work to get California Medical Assistance Commission **(CMAC) to award $5 million Distressed Hospital Funding** to DMC.

Nov 2007 JPA members Supervisor John Gioia and Pat Godley (CFO of Contra Costa Health Services) make presentation to CMAC in Sacramento regarding need for additional state funding to compensate DMC for unreimbursed indigent care costs and unreimbursed Medi-Cal costs.

Dec 2007 **California Medical Assistance Commission (CMAC) votes to provide DMC with** $**36 million** in funding ($12 million per year for 3 years)

Jan 2008 JPA Board approves DMC operating budget, which **reduced deficit from over $30 million to $18 million per year.**

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March 2008 Hospital leadership, Supervisor John Gioia, WCCHD Director Eric Zell, and Congressman George Miller **work with Bankruptcy Court Creditors' Committee to reach a settlement of the $18 million in creditor debt.**

WITHOUT OUTSIDE FUNDING, DMC DOES NOT EMERGE FROM BANKRUPTCY

April 2008 County Health officials Dr. Bill Walker and Pat Godley, Supervisor John Gioia, WCCHD Director Eric Zell, and Hospital Leadership work with Kaiser and John Muir Health Systems for multi-year funding commitment.

- **Kaiser announces $12 million grant** ($4 million/year for 3 years)
- **John Muir announces $3 million grant** ($1 million/year for 3 years)

April 2008 DMC files plan with U.S. Bankruptcy Court to emerge from bankruptcy with Creditors' Committee recommending approval of the plan by the Court

Aug 2008 U.S. Bankruptcy Court approves plan for DMC to emerge from bankruptcy and calling for payments to creditors over a 3-year time period of $12 million.

January 2011 DMC CEO Joe Stewart resigns and interim management brought back.

Spring 2011 Change in state rules governing allocation of inter-governmental transfers by California Medical Assistance Commission (CMAC) results in **decreased funding from CMAC to DMC from $12 million/annually to $1.2 million**.

March 2011 DMC unable to meet payroll and **County Board of Supervisors approves $10 million cash advance** to DMC for operations. Advance requires repayment from WCCHD's ad valorem tax.

July 2011 **Regional Planning Initiative is established to explore options**

- <u>Participants</u> – DMC, Contra Costa Health Services, Kaiser, John Muir Health
- <u>Scope of study</u> - Explored options for: (1) outside funding to close operating deficit on a permanent basis; (2) changes in structure and nature of services provided to find a more sustainable service delivery model; (3) potential lease/sale of the hospital; (4) development of a "legacy plan" in the event DMC is unable to remain open as a full-service hospital.
- <u>Conclusions</u>: Other health care models including freestanding emergency department, downsized 50 bed hospital, urgent care, and partnering with long-term care provider to lease excess capacity all continued to have substantial losses.
- <u>Outcomes</u>: Identified immediate initiatives to secure time to implement a longer term strategy which included: (1) Additional expense reductions; (2) new parcel tax; (3) additional debt financing; (4) multiple proposals to the State.

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Fall 2011	DMC management **negotiates reduction of $1.2 million in past due amounts with vendors.**
Oct 2011	**SB 644** (sponsored by Senator Loni Hancock) signed by Governor Brown. SB 644 provides certainty to a future lender and enables DMC to borrow $20 million to continue operating while continuing to develop a sustainable model. SB 644 creates a statutory lien against the Healthcare District's 2004 parcel tax revenue so that the terms of a future loan to DMC cannot be modified by a bankruptcy court.
Nov 2011	Supervisor John Gioia and WCCHD Director Eric Zell co-chair Measure J Parcel Tax campaign. **Measure J ($47/year parcel tax) passes** with 74% support raising approximately **$5.1 million/year**. Measure J contains "sunset clause" providing that the tax is no longer collected if the hospital and emergency room close.
Nov 2011	Governing Board approves budget with additional **$6 million in cost reductions** recommended by hospital management.
Dec 2011	Hospital management finalizes **additional debt financing of $40 million** to support operations.
2011	DMC management puts in place a line-of-credit with a healthcare finance lender.
2011	**Kaiser provides an additional one year funding grant of $4 million** and DMC develops a line-of-credit to provide ongoing operational funding support.
2011	DMC officials **meet with state elected officials and state health officials seeking support to increase Medi-Cal reimbursement rate.** Efforts are unsuccessful.
Jan 2012	**Hospital management launches national effort to find a strategic partner.**
Spring 2012	DMC hires national healthcare consultant, Camden Group, which makes contact with over 2 dozen organizations (including UCSF, Stanford, Dignity Health, Sutter, Kaiser and many more) to pursue health care partnerships with the hospital. Only one entity (Avanti Hospitals) expresses serious interest. After due diligence and discussions, Avanti decides, in early 2013, not to move forward with DMC.
Spring 2013	**Contra Costa County starts discussions with UCSF Medical Center** about possible affiliation between UCSF, Contra Costa Health Services and DMC. Discussions end in early 2014 with no affiliation agreement.
2012-2013	DMC works with Camden Group (retained in Spring 2012) to develop strategic plan for hospital sustainability and to assist in finding a partner with whom DMC could either merge or affiliate with in order to gain economies of scale and to develop a sustainable business model. Plan identified immediate savings measures but concluded that DMC was not sustainable as a freestanding hospital and needed a partner for long-term sustainability.
April 2013	**Medicare payments cut by more than $3 million/annually** as part of the Federal Budget sequestration.

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2012-2013	**DMC works to find a skilled nursing/rehabilitation service provider to rent excess unused inpatient hospital space.** Effort unsuccessful.
2012-2013	**DMC continues to institute strategies to save money and increase revenue**: • Renegotiates better reimbursement rates with insurance companies • Improves billing and collection practices • Reduces management staffing by 19%, saving nearly **$600,000 annually** • Streamlined staffing, making DMC one of the most efficient hospitals in the Bay Area • Renegotiates physician contracts, saving **$1 million annually** • Renegotiates vendor supply costs to save money • Makes significant changes in health benefits structure for unrepresented employees to save money • Eliminated the self-insured employee benefit program, which reduced costs and eliminated financial risk.
July 2013	**Contra Costa Board of Supervisors approves $9 million cash advance** to DMC to support operations. Advance requires repayment from District's ad valorem tax.
Nov 2013	**Hospital Governing Board declares fiscal emergency** because of projections it will run out of cash in May 2014. Factors leading to emergency: Since 2010 -- DMC lost $17 million/year in outside state and hospital support, DMC experienced 14% decline in operating revenues and 22% decline in inpatient volume through loss of commercially insured patients to privately owned medical facilities, and DMC used up its $40 million in debt financing obtained in 2011. DMC's average reimbursement per patient per day is 57% lower than average for East Bay hospitals.
Nov 2013	DMC submits written funding request to Kaiser
2014	**Affordable Care Act results in $2.8 million per year net decrease in revenues** for DMC (lower Medicare reimbursement rate under ACA more than offsets slight increase in revenue due to lower number of uninsured patients)
2014	**DMC makes funding appeals to Hospital Council** of Northern and Central California including Kaiser, Sutter and John Muir Health System. Efforts unsuccessful.
2014	**DMC makes funding appeals to corporations** (including Chevron, Republic Services, Mechanics Bank), **foundations** (including California Endowment, San Francisco Foundation, and Gates Foundation Global Health Initiative), and **local governments** to support hospital. Efforts unsuccessful.
2014	Throughout 2014, DMC officials continued to reach out to potential investors and hospital operating firms in search of a potential partner. None were willing to pursue discussions beyond an introductory meeting.

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2014	**DMC management and CEO work with Touro University** to establish a partnership/affiliation that would bring in revenue to DMC. Effort unsuccessful.
Spring 2014	Supervisor John Gioia and WCHD Director Eric Zell co-chair June **Measure C Parcel Tax campaign to fully fund DMC's $20 million operating deficit**. Measure receives 52% support and **does not achieve 2/3 vote required to pass.**
Spring 2014	**DMC officials work with Congressman George Miller's office to develop potential partnership with the Veterans Administration.** Efforts unsuccessful after VA indicated that their need for inpatient beds was not significant enough to require additional beds for their system. Also, this VA region does not qualify for VA reimbursement to be paid to non-VA hospital providers.
Spring 2014	After attempting to receive a charitable contribution from the Lytton Tribe, DMC is successful negotiating a **lease agreement with the Lytton Tribe to receive upfront payment of $4.6 million** for the long term use of DMC parking lot. Approved by Healthcare District Board in May 2014.
June 2014	Contra Costa Board of Supervisors approves Supervisor Gioia's proposal to conduct a public opinion poll to gauge voter support for a one-quarter or one-half cent countywide sales tax for public safety and health services (including funding for DMC). **Poll results show it would be very difficult to pass a countywide sales tax.** Proposal does not move forward.
June 2014	**Contra Costa Board of Supervisors approves $6 million cash advance** to DMC to support operations and provide more time for DMC to explore options for sustainability. Advance requires repayment from District's ad valorem tax.
June 2014	**Regional Planning Initiative** (stakeholder group led by County Health Director Dr. Walker) established to explore previously studied options (in 2011) for future health-care service options: smaller full-service hospital, freestanding ER, and urgent care center. Participants include Hospital Council of Northern and Central California (including Kaiser, Sutter, John Muir Health Systems), DMC, Contra Costa Health Services, Alameda/Contra Costa Medical Association, Life Long Medical Care, with participation of California Department of Public Health official.
Summer '14	**DMC works with state legislators and California Department of Public Health (DPH) officials seeking authorization for operating a freestanding emergency room** (satellite emergency room to Contra Costa County Hospital). DPH concludes that existing state law does not authorize freestanding emergency rooms in California and that new statutory authority is required to do so.
Aug 2014	**DMC Emergency Room closes to 911 ambulances**. Stays open to walk in patients.
Sept 2014	**Regional Planning Initiative Stakeholder Group issues interim report which concludes that the following health care models are unsustainable** -- (1) a smaller full service hospital under either the County license or DMC license; (2) 24-hour satellite emergency department (while incurring a smaller operating loss than existing hospital) was not allowed under state law. Report also found that seismic costs for a new hospital to meet state standards would cost nearly $200 million.

Fall 2014 — **DMC officials work with state legislators to achieve "public hospital" designation in order to potentially qualify DMC to receive higher Medi-Cal reimbursement rates.** The Center for Medicaid Services of the U.S. Department of Health and Human Services would still need to approve any reimbursement rate changes. Assemblymember Nancy Skinner and Senator Loni Hancock carry AB 39 to designate DMC a "public hospital" under state law and provide $3 million in one time state funding to DMC. **Only one time allocation of $3 million to DMC passes** in **SB 883** (the budget bill).

2014 — **DMC continues to implement strategies to reduce expenses:**

- Closes San Pablo Towne Center facility
- Reduces staff
- Terminates Sodexo Contract for management of housekeeping, dietary and maintenance services.
- Eliminates self-insured employee health plan
- Successfully negotiates with Local One union for benefit changes

Oct 2014 — **Richmond City Council conditionally approves providing $5 million** in funding to DMC **for 3 years**, totaling **$15 million**, from the Chevron Community Benefit fund contingent on other funding/savings to the hospital of approximately $13 million/year. Matching funds from other sources have not materialized and no money is available from Chevron until all legal challenges to their modernization project are resolved.

Nov 2014 — **DMC Governing Board supports 5 X 8 Shared Commitment Plan** developed by Healthcare District Boardmembers Eric Zell and Irma Anderson to retain full service hospital, with the following eight funding goals to keep hospital open for five years:

- New parcel tax ($5 to $8 million/year)
- County debt repayment forgiveness ($3 million/year)
- Debt support from other local hospitals (Kaiser, Sutter, John Muir) ($3 to $4.3 million/year)
- Continuing operating efficiencies ($1 to 2 mil/year)
- Employee savings ($4.5 to $7 mil/year)
- City of Richmond Chevron Community Benefit fund ($15 mil over 3 years)
- Training program/residency partnership ($500,000)
- Reinvigorated DMC Foundation ($500,000 to $1.5 million)

Dec 2014 — **DMC loses its accounts receivable financing** with Gemino Healthcare Finance due to concern for future risk of repayment.

Dec 2014 — **Contra Costa Board of Supervisors approves** proposal by Supervisor Gioia to: (1) **permanently waive DMC's repayment to the County of $3 million/year** for 3 years **($9 million total)** conditioned upon DMC receiving $15 million/year (for 3 years) in other funding pursuant to the 5 X 8 Plan for a full-service

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hospital; and (2) temporarily suspend DMC's December 2014 and April 2015 repayments to the County totaling **$3 million.**

Dec 2014 **Regional Planning Initiative Stakeholder Group issues final report** confirming conclusions of the September 2014 Interim Report with additional conclusions on urgent care. Report noted that about 11% of DMC emergency room patients require hospital admission. The report concluded that an urgent care facility would incur a much smaller operating loss than the existing hospital or a freestanding emergency department. Losses would be further reduced if the center qualified as a Federally Qualified Health Center (FQHC). The report concluded that while none of the alternatives evaluated by the Stakeholder Group break even financially, "an urgent center with FQHC status offers the best long-term opportunity to become self-supporting." Report also concluded that "connecting patients to more appropriate primary care services and providing assistance to manage their health would reduce the demand on regional emergency rooms."

Jan 2015 **DMC Governing Board hears 4 proposals** (3 private proposals and one from City of San Pablo) to provide funding to DMC. 3 private proposers fail to deposit good faith money demonstrating financial capacity.

Feb 2015 DMC commissions public opinion poll to measure West County voter support for a parcel tax to partially fund DMC's operating loss**. Results show that support at $50, $100 or $150 per parcel remain well below the required 2/3 vote needed to pass.**

Feb 2015 DMC issues WARN letter announcing that it "will be closing and/or reducing certain of its services" on or after April 14, 2015.

March 2015 **Healthcare District Board negotiates and approves real estate transaction to sell the District's Vale Rd. medical office buildings and condominium,** and part of its hospital parking lot (the part subject to the long term lease to the Lytton Tribe) to the City of San Pablo for $7.5 million in cash and $4.4 million in debt reduction for a total value of **$11.9 million**. Infusion of cash avoids immediate closure by end of February 2015.

March 2015 Healthcare District Board votes to close DMC on April 21, 2015 due to lack of future sources of funding to sustain hospital operations and to use $7.5 million in proceeds from sale of property to San Pablo to pay employee, physician and vendor liabilities.